

# Office of the State Auditor

## FY 2002-2003 Accountability Report

### Section I – Executive Summary

The mission of the Office of the State Auditor is to bolster public confidence in state government finance by serving as a deterrent to fiscal mismanagement, fraud, and misuse of assets by state agencies and providers of Medicaid services. We value professionalism in our staff and completion of our audit work in accordance with established professional standards.

The strategic goal that is crucial to accomplishing the mission of the Office of the State Auditor is to provide adequate audit coverage of state agencies and Medicaid providers. Adequate audit coverage ensures that these organizations and their employees recognize that mismanagement, fraud, and misuse of assets will be discovered.

The application of information technology to audit processes continues to improve the efficiency of our audit programs and to provide our elected officials and the general public better access to our audit reports. The primary barrier to achieving our mission and strategic goals continues to be limited funding of our programs. Current funding does not allow the Office of the State Auditor to complete all of the audits of state agencies mandated by statute and could lead to marginal audit coverage of Medicaid providers.

In the last two fiscal years the major achievement of the Office of the State Auditor has been the continuation of an adequate level of audit coverage of State government agencies and Medicaid providers during a period of severe budget reductions.

## **Section II – Business Overview**

The Office of the State Auditor is located at 1401 Main Street, Suite 1200, Columbia, South Carolina. Administrative, managerial and audit functions are carried out at this location; a significant portion of the audit work is conducted on-site at state agencies and Medicaid provider facilities.

The FY 2002-03 Appropriations Act included sixty-nine full time equivalent positions for the Office of the State Auditor. Because of budget reductions, staff size was fifty-five on July 1, 2002 and fifty-one on June 30, 2003. See the “Base Budget Expenditures and Appropriations” table and the organizational chart.

The Office of the State Auditor conducts audits of state government and providers of Medicaid services. The State Audits Section performs financial audits of state agencies, the annual financial audit of the State's General Purpose Financial Statements, and the annual Single Audit of the State's Schedule of Federal Financial Assistance. These audits cover all State agencies with a total of nearly \$5.4 billion in appropriated funds. The size of the agencies ranges from very small to an agency with appropriations of \$1.9 billion. Also, technical assistance is provided to other governmental entities by either assisting with or conducting reviews of financial records and record keeping systems.

All financial and compliance audit reports and management letters are provided to the Governor's Office, Comptroller General, State Treasurer, Senate Finance Committee, House Ways and Means Committee, the Board's Budget Division, Legislative Audit Council, and State Library. They are also published on our internet website. These reports are particularly important because they point out material weaknesses in an agency's accounting system or procedures. They also highlight instances in which regulations or laws were violated.

The Medicaid Audits Section of the State Auditor's Office performs audits and reviews of cost reports filed by institutional providers of Medicaid services. These cost reports are used by the Department of Health and Human Services to establish amounts to be paid to these providers for services provided to qualified Medicaid recipients. Each year, approximately 60 Medicaid contractors are audited with program funding of over \$230 million. In FY 2002-03 eighty-five Medicaid audit reports were issued representing 55 providers. The audit reports identified adjustments to payments made to providers resulting in the Department of Health and Human Services certifying receivables of more than \$4.4 million.

The Office of the State Auditor also oversees all state contracts for auditing services. In FY 2002-03 the Office of the State Auditor was responsible for \$1.5 million in audit contracts.

## Office of the State Auditor

### Base Budget Expenditures and Appropriations

Major Budget Categories	01-02 Actual Expenditures		02-03 Actual Expenditures		03-04 Appropriations Act	
	Total Funds	General Funds	Total Funds	General Funds	Total Funds	General Funds
Personal Service	2,511,551	2,511,551	2,310,986	2,310,986	2,101,864	2,101,864
Other Operating	487,351	487,351	423,313	423,313	313,887	313,887
Special Items	0	0	0	0	0	0
Permanent Improvements	0	0	0	0	0	0
Case Services	0	0	0	0	0	0
Distributions to Subdivisions	0	0	0	0	0	0
Fringe Benefits	677,047	677,047	622,226	622,226	665,834	665,834
Non-recurring	0	0	0	0	0	0
<b>Total</b>	<b>3,675,949</b>	<b>3,675,949</b>	<b>3,356,525</b>	<b>3,356,525</b>	<b>3,081,585</b>	<b>3,081,585</b>

### OTHER EXPENDITURES

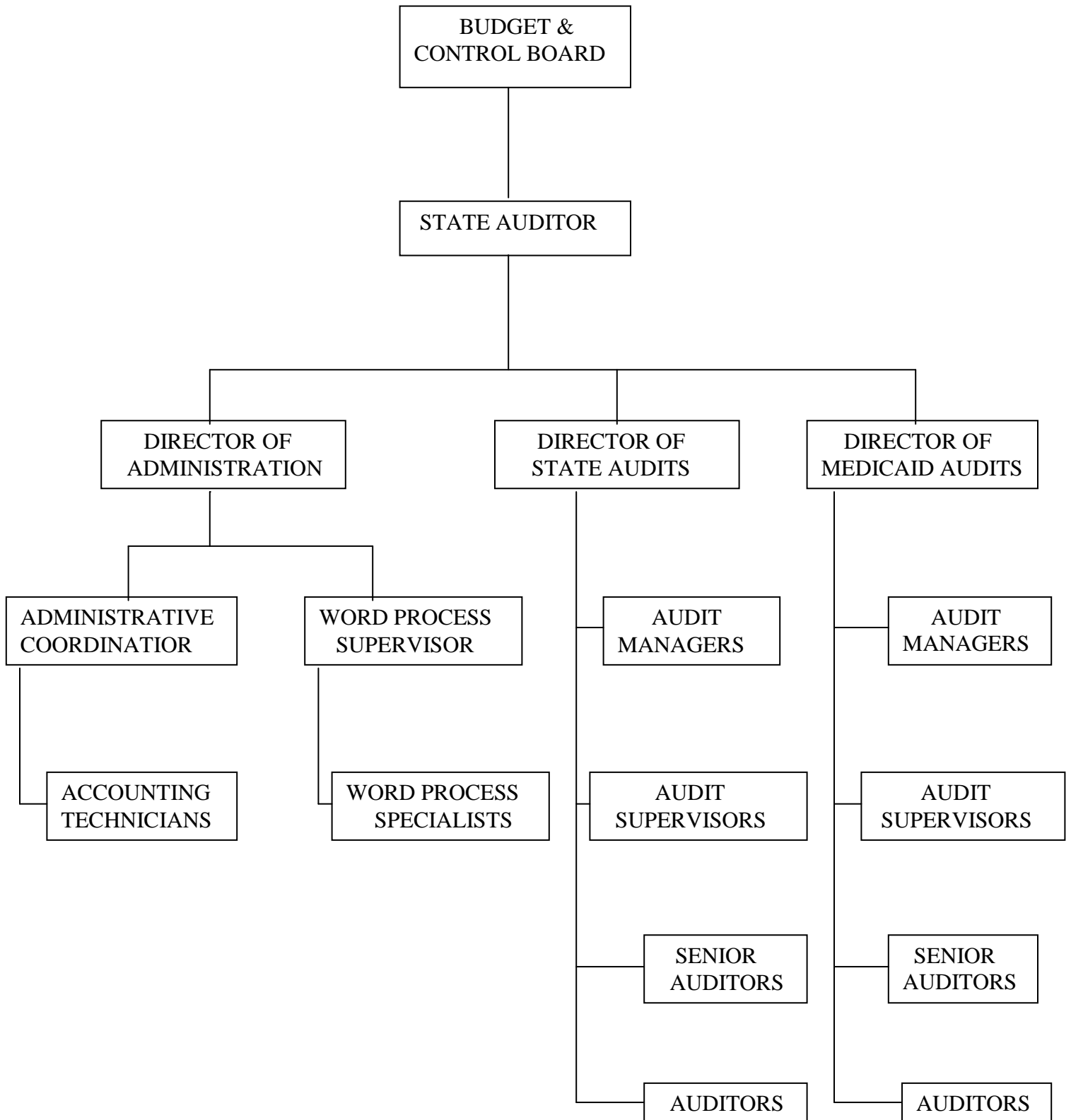
Sources of Funds	01-02 Actual Expenditures	02-03 Actual Expenditures
Supplemental Bills	0	0
Capital Reserve Funds	0	0
Bonds	0	0

### Interim Budget Reductions

Total 01-02 Interim Budget Reduction	\$255,968
Total 02-03 Interim Budget Reduction	\$316,925

# OFFICE OF THE STATE AUDITOR

## Organizational Chart



### **Section III – Elements of Malcolm Baldrige**

#### **Leadership**

The State Auditor, in conjunction with the audit directors and audit managers, defines and communicates the values of the organization to the staff. The State Auditor meets with the audit directors and managers monthly to discuss organizational priorities, problems and progress. This senior management team works collectively with the State Auditor to define the organizational values and priorities. This team is primarily responsible for communicating the direction and priorities of the agency to the staff.

A key element in accomplishing the agency's mission is to provide sufficient audit coverage of state agencies and Medicaid providers such that these organizations and their employees recognize that mismanagement, fraud, and misuse of assets will be detected. To monitor progress on this goal, the Office maintains management information of the status of audits planned for the fiscal year at all times. This system communicates to the staff the importance of completing the audits on time.

The auditor in charge of each audit completes an interim evaluation of each member of the audit team at the conclusion of the audit. These interim evaluations are later used in completing the annual Employee Performance Management System evaluation. This system provides immediate feedback to the staff auditors about their performance and opportunities for improvement.

When a staff auditor leaves the Office of the State Auditor, the Director of Administration conducts an exit interview with the individual on his/her last day. The purpose is to get valid, honest information about staff perceptions, morale, and suggestions for improving the employment experience at the Office of the State Auditor. The information is shared with and analyzed by the State Auditor and the program directors. The information is also shared in general terms with the audit managers. This process has proven to be a very effective way to identify improvements to the office policies and procedures.

The Office of the State Auditor is instrumental in supporting and strengthening the financial community within state government. The standards of financial responsibility in state government are, to a large degree, defined by the audits conducted by the Office of the State Auditor. The emphasis on professional standards, certification as a CPA, and the Governmental Finance Officers Association Certificate of Excellence in Financial Reporting are examples of the leadership of the Office of the State Auditor in state government.

#### **Strategic Planning**

Statutes and regulations define the responsibilities of the Office of the State Auditor and drive the strategic planning process. It is a process of developing and

allocating resources to accomplish each of these responsibilities. Because of deadlines during the year for much of our audit work, the planning requires careful coordination and timing of the allocation of resources. The State Auditor in conjunction with the program directors does the strategic planning on a continual basis. The strategies are communicated to the audit managers in the monthly management meeting and to the entire staff through the agency intranet.

The strategic planning process in this Office consists of some well-defined steps, each one analyzed on short and long term bases:

- 1) Identify the audit work that must be done to satisfy our statutory and regulatory mandates.
- 2) Analyze the audit time required (based on historical data).
- 3) Analyze the time frames (deadlines) for each of the audit programs.
- 4) Identify the resources available and timing of availability.
- 5) Determine the priority of the audits and the ramifications of not completing all the requirements.
- 6) Identify strategies for development of the resources needed to meet all requirements within the time frames.

One component of strategic planning is workforce planning. Our efforts in this area have resulted in:

- 1) A more diverse workforce as indicated by our meeting our Affirmative Action Program goals.
- 2) Development of online recruiting capability, resulting in more qualified applicants.
- 3) Adoption of a variable work schedule policy that shows indications of helping with retention of current employees.
- 4) Tuition Assistance Program (when funding allows) that has contributed to several staff members pursuing certification as a CPA.

### Customer Focus

The General Assembly, the public through its elected officials, and state agency directors are the customers of the Office of the State Auditor. The customers have clearly communicated their focus by passing the statutes defining our programs and audit responsibilities. The statutes and regulations require an annual audit of state government entities and Medicaid providers. Being responsive to our customers means conducting audits in a timely manner and according to professional standards.

The State Auditor has been effective in working with the General Assembly. His many years of experience in state government and the public accounting field provides the background and perspective to effectively communicate with members of the General Assembly and agency management regarding the functions of the Office of the State Auditor.

To more effectively and efficiently communicate the results of our audits to our customers, the Office of the State Auditor now publishes audit reports on our internet website. Auditees are notified of the report by email or letter. Hard copies of reports are provided upon request or when required by law or regulation. This approach not only saves the cost of printing and postage, it also makes the reports more readily available to the public and other public officials. Audit results are communicated to our customers more effectively and at a lower cost to the State.

### Information and Analysis

Since the statutes and regulations define the programs of the Office of the State Auditor, the performance measures are logically defined as efficiency and effectiveness. We measure efficiency by determining how well our staff completes each audit within the assigned budget of audit hours and within the required time frames. We measure effectiveness by our degree of compliance with professional auditing standards. All audit work is subject to an internal compliance (quality control review). Additionally, we undergo an external review every three years. An independent auditor, usually a private CPA firm under contract, conducts the peer review. The standards and time frames are established by the federal government and by professional entities such as the Government Finance Officers Association and the American Institute of Certified Public Accountants.

### Human Resource Focus

A crucial element in the development and motivation of our employees is the interim evaluation that each auditor receives at the conclusion of an audit. The auditor in charge of each audit completes the interim evaluation of each member of the audit team. This system provides immediate feedback to the staff auditors about their performance and opportunities for improvement. The interim evaluations are also used in completing the annual Employee Performance Management System evaluation and in identifying staff training needs.

One of the important ways that the Office of the State Auditor encourages employees to develop their full potential is the emphasis on achieving certification as a CPA. The State Auditor's Office supports and encourages staff members in this effort by providing qualifying experience and the in-house training required to meet the continuing education requirements of maintaining a CPA certificate. When funds are available, tuition assistance is also offered to encourage auditors to acquire the necessary academic requirements to apply for the CPA. One factor considered when evaluating a candidate for employment is his/her interest in pursuing certification as a CPA. In addition, promotion policies require staff members to achieve certification as a CPA in order to progress to senior auditor or above.

## Process Management

The production process used by the Office of the State Auditor is one of service delivery. It consists of conducting audits and reporting the results of the audit to our customers. The process of conducting an audit and reporting the results are well defined by professional standards. Our efforts in this area are largely directed at developing the competencies and expertise of our staff to conduct audits and report results in accordance with professional standards. Our continuous professional training, in-house training, tuition assistance, emphasis on certification, performance review system, and audit quality control processes are all components of our focus on ensuring that our audit processes conform to established professional standards.

Developments in information technology have allowed us to improve the efficiency of our audit processes and to make our audit reports more accessible to our customers. The Office of the State Auditor now publishes audit reports on its internet website. This eliminated the printing and postage cost of our reports. Audit results are communicated to our customers more effectively and at a lower cost to the State.

## Business Results

The mission of the Office of the State Auditor is to bolster public confidence in state government finance by serving as a deterrent to fiscal mismanagement, fraud, and misuse of assets by state agencies and providers of Medicaid services. During a period of severe budget reductions, the Office of the State Auditor has been able to maintain a high level of audit coverage to State government agencies and Medicaid providers. The State Auditor continues to focus on providing the audit services required by state government and to manage resources in such a way to accomplish that goal.

For the Office of the State Auditor, customer expectations (and satisfaction) are defined primarily by statute and Federal regulation. Our customers are the citizens of South Carolina and the elected officials representing them. It is impractical to measure their satisfaction directly. We assume customer satisfaction when the Office of the State Auditor carries out its mission efficiently and in accordance with professional auditing standards.

All of our audit work complies with applicable standards of the American Institute of Certified Public Accountants. The Government Finance Officers' Association awarded South Carolina the Certificate of Achievement for Excellence in Financial Reporting for the State's Comprehensive Annual Financial Report, which includes the State's General Purpose Financial Statements. Also indicative of this high level of professionalism is the fact that over forty percent of our audit staff are certified public accountants.

Every three years the State Auditor's Office is required by Government Auditing Standards to undergo a peer review by an independent external auditor. The last peer



review was in October 2000 and resulted in an unqualified opinion with no letter of comment.

The mission of the Office of the State Auditor is accomplished when the statutes and regulations are satisfied. Although the statutes require that we audit each state agency annually, an Appropriations Act proviso allows us to omit some audits as long as each agency is audited no less than once every three years. During FY 2002-03 the Office of the State Auditor completed audit engagements for ninety-two (92) of the one hundred and five (105) state departments, agencies and institutions. The State Auditor's Office is on schedule to complete an audit of each state agency at least once every three years.

Each year the Office of the State Auditor and a nationally recognized accounting firm jointly audit the State of South Carolina's General Purpose Financial Statements, which are prepared by the Comptroller General. The credibility of the State's General Purpose Financial Statements is very important in the financial community and can affect the State's bond rating. This year the audit was completed on time but required thirteen percent more audit hours than planned.

The Single Audit Act Amendments of 1996 requires an audit of the State of South Carolina's Schedule of Expenditures of Federal Awards. The Single Audit Report was completed on time and 77 hours under the budget of 9,725 hours. The U.S. Department of Health and Human Services accepted the audit without revision.

Federal regulations require audit coverage of institutional providers for the State's Medicaid program. In addition, the Office of the State Auditor is under contract with the Department of Health and Human Services to audit each of the 146 Medicaid providers no less than once every four years. In FY 2002-03 the Office of State Auditor issued eighty-five (85) audit reports representing fifty-five (55) Medicaid providers. The audit reports identified adjustments to payments made to providers resulting in the Department of Health and Human Services certifying receivables of more than \$4.4 million. The audits were completed under budget.

The Office of the State Auditor provides expert technical assistance to other State government entities in the areas of finance and accounting. This year the Director of State Audits served on the SC Enterprise Information System oversight committee and the State Government Records Advisory Council. He also assisted State agencies in procuring audit and accounting services. The State Auditor served as chairman of the Commercial Mobile Radio Service Emergency Telephone Services Advisory Committee dealing with cost recovery for 911 service providers.

Employee moral has been affected by the lack of funds for raises and programs such as tuition reimbursement. Even so, the staff has remained focused as evidenced by their continued high level of performance, their continued pursuit of certification as CPAs, and involvement in staff programs such as the Employee Committee and Meals-on-Wheels. Maintaining a motivated staff will continue to be a challenge made more difficult by budget limitations.

One of the most important values of the organization is professionalism in the field of accounting. An example is the support and encouragement extended to staff members to achieve certification as a CPA. The Office of the State Auditor supports staff members in this effort by providing qualifying experience and in-house training to help with the continuing education requirements of the CPA. When funds are available, tuition assistance is also offered to encourage auditors to acquire the necessary academic requirements to qualify to take the CPA exam. One factor considered when evaluating a candidate for employment is his/her interest in pursuing certification as a CPA. To drive the point home, promotion policies require staff members to achieve certification as a CPA in order to progress to audit supervisor or above.

Staff development is a very important consideration for an organization such as the Office of the State Auditor. The level of professionalism sought for our staff requires considerable continuing education efforts within the agency and an expectation of our junior staff to continue with the education and development required to be certified as CPAs. Our hiring and promotion policies have reinforced these organizational values. Financial considerations have, however, dictated that we suspend our tuition assistance program.

Private sector CPA firms are important suppliers of audit services to State government. Institutions of higher learning and a number of other state government entities pay these firms to conduct the annual audit of their agencies. Statutes require that the State Auditor approve all such audit contracts. The Office of the State Auditor issues the RFP's, conducts the bid conferences and awards the contracts. This procedure insures competitive charges, responsive contractors, and professional standards of audit work. In FY 2002-03 the Office of the State Auditor was responsible for overseeing \$1.5 million in audit contracts.

Because of budget reductions, financial considerations drove most management decisions again in FY 2002-03. The Office of the State Auditor spent 8.7% less than in the previous fiscal year and 27% less than in FY01. Over 25% of the positions allocated to the Office of the State Auditor are vacant due to lack of funds. The smaller staff and last year's elimination of contracts with CPA firms severely reduces the available resources. Increased efficiencies derived from investments in information technology in recent years continue to mitigate the reduction of audit resources.